F.Y.I.

FOR YOUR INFORMATION

CHANGING THE WAY WE CLASSIFY INDUSTRIES

The North American Industry Classification System (NAICS) is replacing the Standard Industrial Classification (SIC) system used for 60 years to categorize establishments in the United States. The classification system is used by many different types of governmental agencies, businesses, and industries in tracking economic trends. In 1997, various government agencies began the process of converting to NAICS (pronounced "nakes"), and most Bureau of Labor Statistics (BLS) programs will complete the conversion process by spring 2003. The Office of Compensation and Working Conditions and the Office of Employment Projections won't complete the process until 2004, though, and will publish NAICS-based data in 2004 and 2005. To implement NAICS, BLS and its state partners, like the Idaho Department of Labor, have been working for several years to assign the new codes to approximately 8.2 million employers covered by unemployment insurance laws.

The Idaho Department of Labor will publish January 2003 nonfarm numbers based on NAICS from the Current Employment Statistics (CES) program in February. NAICS-based occupational wage data from the Occupational Employment Statistics (OES) program will be published in the fall of 2003. The Covered Employment and Wages (CEW) program, commonly referred to as the ES-202 program, will publish data based on NAICS in 2003.

Reasons to Change

Passage of the North American Free Trade Agreement (NAFTA) in January 1994 led to a need for meaningful statistics about products, sales, and employment across the borders of the United States, Canada, and Mexico. To meet this need, the three countries would have to use the same classification system to allow for direct comparisons of economic data. There was also widespread concern that the SIC system no longer reflected the structure of the U.S. economy. To deal with these issues, three major federal statistical agencies, BLS, U.S. Census Bureau, and Bureau of Economic Analysis (BEA), decided to develop a new industrial classification system with input from both data users and data producers. The first NAICS manual, NAICS 1997, was then published in mid-1998. That manual was later revised to the current NAICS 2002 version. NAICS 2002 is the same as NAICS 1997 for 16 of the 20 industrial sectors. The construction and wholesale trade sectors, however, were substantially changed in the revision, and a number of retail classifications and the organization of the information sector were also modified.

The numeric system of NAICS coding has no relationship to that of SIC. There are 20 broad categories in NAICS (FYI Table 1: *NAICS Categories*, page 22) compared to only 10 divisions in SIC. The highest level of NAICS classification is called the sector, corresponding roughly with the division level in SIC. NAICS has five levels of classification within detailed codes that have a maximum of six digits (FYI Table 2: *Codes Comparison*, page 22)). SIC provided only four levels of classification within four-digit detailed codes. NAICS was designed to allow industries to be compared at the five-digit NAICS Industry level across the U.S., Canada, and Mexico. The sixth digit of a NAICS classification can be used by each country to further identify industries, and may be used differently to accommodate the different needs of the three countries.

Advantages of NAICS

International Comparability. NAICS was developed in cooperation with Statistics Canada, Canada's national statistical agency, and Mexico's National Institute of Statistics, Geography and Informatics (INEGI), to provide comparable industry statistics across North America.

Relevance. Unlike revisions to the SIC system, NAICS started from a clean slate to recognize hundreds of new and emerging industries and it reorganizes industries into more meaningful sectors, especially in service-producing segments of our economy. The SIC system was developed in the 1930s when the U.S. economy had just transformed from an agricultural base to a manufacturing base; it didn't represent our current service-based economy. Service-producing sectors make up four-fifths of nonfarm jobs in the U.S., yet represented only one-fourth of the SIC codes. Manufacturing, on the other hand, makes up less than one-tenth of our economy, but represented over half of the SIC codes.

NAICS will better reflect today's industrial mix by separately recognizing for the first time over 350 industries such as bed and breakfast inns, cable networks, casinos, environmental consulting, health maintenance organization (HMO) medical centers, nail salons, pet supply stores and pet care centers, satellite communications, semiconductor machinery manufacturing, telemarketing centers, temporary help suppliers, warehouse clubs, and weight reduction

centers. Under the SIC system, many unrelated services and products had to be grouped under the "Not Elsewhere Classified" category in each industrial sector. For example, SIC 7389 (Business Services, Not Elsewhere Classified) included such disparate services as wig styling, telemarketing, swimming pool cleaning, check validation, special events decorating, and embroidering advertising on shirts.

NAICS will also be reviewed every five years to ensure its classifications keep pace with our changing economy.

Consistency. NAICS uses a production-based concept of classification. Under the SIC system, some establishments were classified by the production processes they used, but others were classified by different criteria, such as whether their customers were retail or wholesale. NAICS consistently focuses on grouping establishments with similar activities and processes, rather than focusing on what is produced or on who buys the products. As a result of this focus, the NAICS reclassification will substantially change which businesses are included in certain sectors. For instance, establishments considered to be engaged in wholesale trade under the SIC system, such as the sale of used auto parts or office furniture, could be reclassified as retail trade if they are open to the public. Under NAICS, establishments that sell merchandise in small quantities using public-oriented methods like mass media advertising and high-traffic locations are classified as retailers. Establishments that sell merchandise in large quantities using business-oriented sales methods, such as specialized catalogs and warehouse locations closed to the public, are classified as wholesalers.

FYI Table 1: NAICS Sectors

New Code #	NAICS Sector
11	Agriculture, Forestry, Fishing, and Hunting
21	Mining
22	Utilities
23	Construction
31-33	Manufacturing
42	Wholesale Trade
44-45	Retail Trade
48-49	Transportation and Warehousing
51	Information
52	Finance and Insurance
53	Real Estate and Rental and Leasing
54	Professional, Scientific, and Technical Services
55	Management of Companies and Enterprises
56	Administrative and Support, Waste Management and Remediation Services
61	Educational Services
62	Health Care and Social Assistance
71	Arts, Entertainment, and Recreation
72	Accommodation and Food Services
81	Other Services (Except Public Administration)
92	Public Administration

FYI Table 2: Codes Comparison

SIC Codes		NAICS Codes	
Level of Classification	Number of Digits	Level of Classification	Number of Digits
Division	Alpha	Sector	XX
Major Group	XX	Subsector	XXX
Industry Group	XXX	Industry Group	XXXX
Industry	XXXX	NAICS Industry	XXXXX
		U.S. Industry	XXXXXX

Under NAICS, auxiliary establishments will also be classified differently than under SIC. Auxiliary establishments—those that provide services such as warehousing or data processing to other organizations within the same company—were classified in the same industry as their parent companies under SIC. NAICS classifies each auxiliary establishment according to the services they provide.

Because NAICS is a new classification system and not a revision of SIC, implementation will cause a break in time series data. The ability to compare future data with historical data, especially when it is over ten years old, will be affected. Agencies are doing their best to ensure as smooth a transition as possible and to use imputed codes to provide historical data for comparison. The advantages of implementing NAICS—international comparability, relevance, and consistency—should compensate for any negative impact. More information about NAICs can be found on the Internet by visiting the BLS site at http://www.bls.gov/bls/naics.htm. Statistics Canada's web address is http://www.statcan.ca/start.html and Mexico's INEGI web address is http://www.inegi.gob.mx/difusion/ingles/portadai.html.

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Ask the Economist

Several states include a column in their monthly newsletter entitled "Ask the Economist." We thought this was a good way for us, too, to respond to questions that our readers have on the data and what it really means. We will run the column on a semi-regular basis. Please send your questions, comments, or suggestions via e-mail to lmi@jobservice.us or regular mail to Public Affairs, Idaho Department of Labor, 317 W. Main St., Boise, ID 83735.

To start the series, we address the question "What is the difference between *Total Employment* as a component of the *Civilian Labor Force* and *Nonfarm Payroll Jobs?* During the last year *Total Employment* and the count of *Nonfarm Payroll Jobs* have gone in different directions, which is confusing. So it is time to remind our readers what is included in each of these economic measures. *Total Employment*, which is a component of the *Civilian Labor Force*, is a count of people who live in Idaho who are working, whereas *Nonfarm Payroll Jobs* is a count of jobs.

Idaho's *Civilian Labor Force* counts nonmilitary persons living in Idaho, 16 years of age or older, working or actively seeking work. This information—*Civilian Labor Force, Total Employment*, unemployment, and unemployment rate—is commonly known as labor force statistics. A person can work for an employer, be self-employed, or work in a family enterprise as a non-paid worker. A person is counted only once even though he/she might hold more than one job, but the person must reside in Idaho. Individuals who are not working, but are available and actively seeking work, are counted as unemployed as long as they meet the residence and age criteria.

The U.S. Bureau of Labor Statistics (BLS) regression models are used by states to calculate *Civilian Labor Force* components—total employment, unemployment, and unemployment rates—and to seasonally adjust the data. The models use population estimates, data from the monthly Current Population Survey (CPS) conducted by the U.S. Census Bureau, the monthly Current Employment Statistics (CES) survey conducted by the Idaho Department of Labor, unemployment insurance claimant numbers, and historical seasonal employment patterns as the main variables. In Idaho, 762 households are surveyed each month for CPS data. Individual households are rotated in and out of the sample during the 16 month survey period – four months in the survey, eight months out, and then four months back in. Employment status is one piece of data collected each month. While the number of households surveyed in Idaho does not comprise a statistically valid sample for this state, the CPS data is used as an input to the BLS models.

Idaho's *Nonfarm Payroll Jobs* is a count of jobs. About 3,900 Idaho employers provide employment and wages in response to the CES monthly survey. Individuals in this survey can be counted more than once if that individual holds more than one job. Individuals do not have to reside in Idaho, but must work in Idaho and can be as young as fourteen.

Data collected from the CPS and the CES surveys are collected for the week that includes the 12th day of the month. BLS provides guidelines and the methodology for both surveys and the data are subject to monthly revisions and annual benchmarking. All states use the same procedures for calculating both types of employment counts, which allows for state-to-state comparison.

The following factors could have an impact on *Total Employment*:

- Changes in population growth
- Changes in the number of workers per household
- Changes in industrial segments not easily measured, i.e., self-employed, private households, agriculture workers, etc.
- Changes in seasonal patterns
- Changes in the status of the households in the CPS sample

If *Total Employment*, the labor force component (number of people), has declined, shouldn't that also be the case for nonfarm employment (number of jobs)? Not necessarily.

The following factors could have an impact on the number of *Nonfarm Payroll Jobs*:

- When jobs are filled by out-of-state workers, thereby not increasing Idaho's labor force total employment statistics
- When jobs are filled by multiple jobholders, thereby not increasing Idaho's labor force total employment statistics
- When jobs are filled by persons who are 14 and 15 years of age, thereby not included in the labor force statistics

Because of the differences in employment measures, concepts, and methodology, *Total Employment* and the number of *Nonfarm Payroll Jobs* are not comparable. The two employment series can move in opposite directions and still be correct. This has occurred several times in 2002. Even when the two employment series move in the same direction, the magnitude is not always the same.

Given the differences in these employment measures, which should the reader consider the most important? It depends upon your primary interest.

The labor force statistics, which includes *Total Employment*, provide a comparable measure of an area's general economic well-being. The unemployment rate is a single statistic that can be compared state-to-nation, state-to-state, and county-to-county. Even though puzzling month-to-month changes can occur, long-term trends in labor force statistics point to how the economy is faring over time.

Nonfarm Payroll Jobs statistics show the industrial structure of an area's economy and how the industries compare from month-to-month and year-to-year. Individual industry employment changes can be compared to changes in the total number of *Nonfarm Payroll Jobs*, changes in large industrial groupings, and changes in the industry from one area to another.

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State Overview — *(continued from page 4)*

tional economy begins to show signs of improving, the demand for some of Idaho's products such as computers, lumber, and paper should also increase, thus improving the trucking industry.

Since January 2001 the number of jobs in *Wholesale Trade* has decreased year-over-year. The losses started small with only 500, but by December 2001 that had increased fourfold to nearly 2,000 fewer jobs from December 2000. The job loss was split evenly between *Durable Goods* and *Nondurable Goods.* The goods moving out of the wholesale distribution points decreased as consumer demand decreased. (This also had a negative impact on the trucking industry.) Drought conditions and low prices for agricultural products reduced activity in the fresh fruit and vegetable packing sheds. By July 2002, the number of new jobs in *Wholesale Nondurable Goods* was up 400. *Drugs, Drug Proprieties, & Druggists' Sundries* was the only *Wholesale Nondurable Goods* sector that reported a growth in the number of jobs between March 2001 and March 2002.

During 2001 all but one major grocery chain in Idaho experienced a loss of jobs from the prior year. For example, in July 2000 there were 468 food store establishments with 20,200 jobs compared to 645 establishments with 19,000 jobs in July 2001. Albertsons reported the largest decrease with nearly 500 fewer jobs due to reorganization of administrative offices and closures of stores as a result of their purchase of American Food Stores. Competition and a slow economy have also had an impact on the grocery market.

The year-over-year loss of jobs in the *Hotel & Other Lodging* industry is not just because of the aftereffects of September 11. As early as April 2001, Idaho was experiencing a slowdown in tourist activity. As the economy slowed and the stock market faltered, there was less money for consumers to spend for vacations and for business travel as well.

We've examined the negative trends over the past two years but there are several areas of significant year-over-year job growth to look at, particularly in *Health Services, Business Services,* and *Local Government.*

- Since October 2000, the *Health Services* sector has added over 2,000 jobs each month from the prior year. The largest area of growth has been in *Hospitals.* The year-over-year growth in the number of new jobs in *Hospitals* began to slow in early 2002. The length of time a patient is kept in the hospital is declining due to cost-cutting efforts. Most new hospitals are now open and employment is stabilizing. Also, several hospitals recently have consolidated, reducing the number of jobs. Another area with an increase in the number of jobs is long-term and retirement care facilities.
- Activity in *Business Services* has been mixed, but mostly positive. The number of temporary workers decreased in 2001 as many of these jobs were associated with the electronics industry. However, more temporary jobs are becoming available. This could be a sign that the economy is starting to provide more job opportunities. When the number of temporary employment opportunities began to decrease, the loss was offset by growth in the number of jobs in various call centers. Dell Computers opened a new call center in Twin Falls early in 2002 resulting in several hundred new jobs. Other call centers have also expanded their workforce during the year.
- *Local Government* has experienced an expansion in the number of jobs in education. Even with tight budgets, school districts have found it necessary to build more schools and hire more teachers to meet the growing school-age population. Another factor that has had an impact on *Local Government* involves the casinos operated by the various Indian tribes. Prior to 2001, tribal enterprises were classified as private establishments. They are now classified as *Local Government* entities. The casinos provide the largest number of jobs in that sector.

The job outlook for the remainder of 2002 is very cautious. Some industries may have to add a few jobs on a monthly basis, but employment may continue to remain below the prior year. Others will continue to expand even beyond the year-ago level. Major layoffs are not foreseen in the future, but frequently when such a bold statement is made, an event occurs that changes the outlook. We look for very little change; in other words, not a lot of new jobs are coming, but not a lot of existing jobs are going away, either.

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